



MAGNUSSON

BALTIC RELIEF PACKAGES

In response to the Covid-19 crisis, the governments of Estonia, Lithuania and Latvia have implemented relief packages to support their local economies.

Magnusson's local experts have analysed what we consider to be the most useful and relevant measures for businesses currently being introduced in the Baltics in response to Covid-19.

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Note: This overview covers new regulations and schemes in force or soon to enter into force in Lithuania, Estonia and Latvia as at 27 April 2020, as well as some proposals still under consideration.

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LITHUANIAN RELIEF PACKAGE

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1. Retaining jobs

In the event of emergency or quarantine, remote work is not always an option. Therefore, employers may declare idle time or partial idle time in complicated cases. The costs incurred by employers will be compensated by the pay subsidy granted to the employer by the Lithuanian Employment Services. The employer can choose the rate of the Government support. A breakdown of the support rates planned by the Government for employers is provided in the table below.

SECTOR	EMPLOYER	STATE	DURATION
If the employer chooses 90% system	10 % of the employee's salary	90% of the employee's salary, but no more than EUR 607 (gross)	Until the emergency situation or quarantine is lifted, but the employer must retain the employee for 3 more months
If the employer chooses 70% system	30% of the employee's salary	70% of the employee's salary, but no more than EUR 910.5 (gross)	Until the emergency situation or quarantine is lifted, but the employer must retain the employee for 6 more months

Increased sickness allowance for employees who contract a disease while at work

If health care specialists, officers or other employees become infected with a disease which is the subject of an emergency declaration in the course of their duties, they will be eligible for the maximum sickness allowance, or 100% of their "take-home" salary (or 77.58% of their gross salary). This allowance is applicable to such employees as pharmacists, cash-iers and social workers, among others. In each case, the documents evidencing the link between the performance of duties and sickness should be submitted to the territorial division of the State Social Insurance Fund ("Sodra").

Suspension from work

The Lithuanian Parliament has approved amendments to the Labour Code, stating that in the event of an emergency situation or quarantine, the employer may suspend an employee from work if the employee's health condition poses a threat to his/her colleagues, but the employee does not agree to work remotely. Any suspension from work would apply for a limited period and be without pay.

Liquidity support for businesses

The Lithuanian tax authority will enter into urgent agreements on tax deferral or instalment arrangements without applying any interest. Recovery following suspension of tax arrears will be based on "common sense" criteria. Taxpayers are exempt from fines and default interest for delays to fulfilling their taxation obligations. The possibility to defer payment of personal income tax has also been introduced.

An increase of the guarantee limit of the Agricultural Loan Guarantee Fund and INVEGA by EUR 500 million has been introduced alongside an extension of the terms of the guarantee. SMEs would be compensated between 50-100% of the interest paid to date.

The opportunity for business customers to defer or postpone payments for electricity and natural gas bills to UAB Ignitis, an energy service company, has also been introduced. In a similar vein, municipalities are recommended to exempt taxpayers from taxes on commercial real estate and land taxes. Another recommendation to municipalities is to defer or spread utility bills and payments for thermal energy.

Considering the imposed restrictions and banned activities due to COVID-19, the State Tax Inspectorate published a list of taxpayers which from 16 March 2020 are automatically (without any request needed) subject to:

- exemption from default interest;
- suspension of tax arrears recovery.

Once the emergency situation has been lifted, the companies who ben-

exempted from the special measures will have two months to pay their taxes or enter into an interest-free tax instalment agreement.

Any business owners not included in the above list of taxpayers but also experiencing hardship due to COVID-19 may contact the tax administrator for relief by submitting an application via a simplified form.

Acceleration and future measures

The Government plans to set an additional State guarantee limit of EUR 500 million for the creation or replenishment of financial instruments where the State assumes the primary risk of exposure. The economic stimulus package of EUR 1 billion will include EUR 500 million in additional investments and EUR 500 million as additional guarantees.

The following measures for business (from the economic stimulus package) are provided by INVEGA, a financial entity incorporated by the State:

- **Individual guarantees** (for leasing, loans, large companies, export credit) – INVEGA guarantees the repayment of the first instalment of the loan to the credit institution up to 80% and the remainder is covered by collateral offered by the borrower. An individual INVEGA guarantee can be used both for lending to businesses under market conditions and for taking out any soft loan facility administered by INVEGA.

- **Portfolio Guarantees for Loans** – The guaranteed portfolio may include: working capital loans, including reverse leasing transactions, to support corporate liquidity, granted not earlier than on 16 March 2020; previously signed unsecured investment (including leasing transactions) and working capital (excluding reverse leasing transactions) loans for which the repayment schedule was extended or the deferred repayment was applied, without compromising other loan repayment terms, not earlier than on 16 March 2020 (it can be granted for the maximum period of 6 years (72 months) and the maximum amount may not exceed EUR 5 million).

- **Loans for payable invoices for small enterprises** – The loan will be available to supplier companies whose invoices have not been paid or have only been partially paid by the buyer company. The buyer company must be included in the STI list of companies affected by COVID-19.

- **Financial instrument Alternative** – Loans are granted under the incentive financial instrument Alternative, which enables SMEs to obtain the necessary financing for their business through alternative financing providers. The Alternative instrument can be used for the

refinancing of loans if the financing conditions for existing borrowers have improved, i.e. the loan repayment schedules are changed (the repayment term is extended) or the repayment of loan instalments is postponed.

- **Loans to businesses most affected by COVID-19** – SMEs whose turnover has dropped by more than 60% can receive unsecured loans under the incentive financial instrument “Loans to Businesses Most Affected by COVID-19”. A loan is used to finance basic operating expenses, such as staff salaries, rent, utilities, etc.

- **Crowd funding loans or “Avietė”** – to enable SMEs and crowd funding platform operators to enter into cooperation agreements for the implementation of Avietė loans of up to EUR 10,000. There are no limits on the number of crowd funding platform operators and agreements can be made throughout the period of implementation and until all funds earmarked for the measure are used (EUR 4,615 million).

- **Compensation of loan interest 100%** – If the loan repayment term was deferred after 16 March 2020, the lender may be eligible for compensation for 100% of the interest.



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Employers and employees

1. The Estonian Unemployment Insurance Fund is reimbursing 70% of pay for employees of businesses experiencing hardship, contingent upon the employer meeting certain requirements. The benefit is calculated based on the gross average wages of the employee during the previous 12 months and will not exceed EUR 1,000 per employee per month. It can be claimed by both private and public employers for a maximum of two months within the three-month period from March to May.

2. The first three days of sick leave for all incapacity leave applications from the period of March to May 2020 are compensated by the state retrospectively through the Health Insurance Board. EUR 40.7 million has been allocated for this purpose.

3. Payment to pension fund's second pillar by the state shall be stopped starting from 1 July 2020 till 31 August 2021. All people currently in the second pillar system can decide whether to keep making their own contributions to the pillar in October 2020. A reimbursement scheme is being set up for people that suffer loss of compound interest during this period.

Taxes, duties, VAT etc.

4. Interest on tax debts is not calculated for the months of March and April this year. Starting from 1 May 2020, interest rate will be reduced from 0.06% to 0.03%, with permission given to tax authorities to lower interest rates to zero percent for the payment of tax arrears in instalments. It is suggested that applications for payment of tax arrears in instalments be submitted after the end of the emergency period.

5. The state pays an advance payment of social tax for the first quarter to self-employed persons (SEP) to each SEP's prepayment account at ETCB.
6. Minimum requirement for social tax is dismissed for three months, i.e. social tax shall be calculated solely based on the employee's pay.
7. Excise duties for diesel fuels, natural gas and electricity shall be lowered starting from May 1 this year up until April 30 in year 2022.
8. VAT rate for electronic publications has been lowered to 9% to match the VAT rate of paper publications, the same applies for e-books in physical form.

Industry sector support

9. Both self-employed persons and private individuals can further deduct expenses of up to EUR 5 000 per year from the income received from the sale of timber or logging rights and private forest land support.
10. All businesses may apply for KredEx Foundation measures. These include emergency loan guarantees for issuing new loans, emergency loan guarantees to relax the repayment schedules of existing bank loans and emergency loans for liquidity problems or new investments.
11. Agricultural companies can apply for guarantees (up to EUR 50 million), business loans (up to EUR 100 million) or land capital financing (up to EUR 50 million) from the Rural Development Foundation (we note that this measure is awaiting Parliament's approval).
12. EUR 35 million has been allocated to small enterprises and the tourism sector to be distributed by Enterprise Estonia (EAS) to alleviate economic hardship and encourage a speedy comeback. EUR 25 million has been earmarked for the tourism sector, leaving small enterprises EUR 10 million of the resources.
13. EUR 300 million has been granted to strategic investments of enterprises with a special focus on the transportation sector.
14. In the culture and sports business, EUR 25 million is allocated to both supporting individuals working in said field (EUR 5.2 million) and reimbursing expenses incurred due to cancellation of events and the suspension of organised activities.
15. The building sector will be stimulated through an allocation of EUR 105 million through Kredex to provide aid for reconstruction of apartment buildings and small houses, regional loans for reconstruction of apartment buildings, demolition aid and housing guarantees.

16. Telecom companies are supported through the allocation of EUR 15 million to construct a permanent communication network and provide consumers with support in connecting to the broadband network.

Other measures

17. EUR 130 million has been allocated for local governments, of which EUR 30 million is directed as compensation for the effects of the crisis, EUR 70 million is given for new investments and EUR 30 million is meant for preserving local roads.

18. The state exempts donations and gifts made to private sector hospitals, welfare institutions and state and local government agencies from income tax for the duration of the emergency period.

19. The state is offering extra capital in exchange for a share in the company to some companies that have an important impact on the economy and that are the biggest employment tax suppliers and exporters. The companies may later buy their shares back.



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Employment measures

Employees working for affected companies who are not able to go to work due to limitations imposed by the can receive payments of up to 75% of their previous average monthly salary (basing on the average of the previous 6 months) up to EUR 700. Income tax will not be deducted from these payments. Notably, this support can be withheld if the company hires new employees.

Taxation and reporting measures

Companies unable to fulfil their tax obligations may postpone payment for up to 3 years without risking late payment fees and inclusion on the State Revenue Service debtor list. It is also noteworthy that the tax authority retains the right to revoke the decision to extend the tax payment period.

Overpaid VAT after VAT declaration that has been approved by the State Revenue Service will be reimbursed within 30 days.

The deadline to submit the company's annual reports for the 2019 financial year has been extended by 3 months.

The law gives local municipalities the right to set other real estate tax payment deadlines, so be sure to follow the announcements of the local municipalities.

In certain cases, the law prevents creditors from filing an application to wind up an incorporated entity until 1 September 2020.

Gambling and Excise

It is prohibited to organize gambling and lotteries during Covid-19 crisis, unless taking place online.

Goods subject to excise (e.g., beer) can continue to be sold by so called "distance contracts" (e.g., via the Internet), with the exception of tobacco and other products relating to smoking, such as liquids for e-cigarettes. Alcohol products used to produce alcohol-based disinfectants during the period of Covid-19 crisis shall also be exempt from excise.

Summary

The full list of sectors approved for support by the Cabinet of Ministers due to the deterioration in their financial situation due to Covid-19 is available here. The main sectors to which these new measures apply include:

- Passenger airway and railway companies
- Hotels and similar accommodation providers
- Camping grounds, recreational vehicle parks and trailer parks
- Restaurants, bars and mobile food service providers
- Companies renting/leasing cars, light motor vehicles, recreational and sports goods
- Travel agencies
- Pre-primary education providers
- Sports and out-of-school education providers
- Organizers of different cultural activities
- Museums and historical sites
- Sports facilities and sport and fitness clubs
- Amusement parks and theme parks



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